



DEPARTMENT OF THE ARMY
HEADQUARTERS UNITED STATES ARMY FORCES COMMAND
1777 HARDEE AVENUE SW
FORT MCPHERSON GEORGIA 30330-1062

REPLY TO
ATTENTION OF

AFLG-PR

NOV 18 1999

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Contracting Information Letter (CIL) 00-03, Award Fees
and Contractor Performance Evaluations

1. Reference enclosed memorandum, SAAL-PS, 9 Nov 99, SAB.
2. The Deputy Assistant Secretary of the Army (Procurement) has expressed concern that some Army contractors receive higher award fees than are consistent with the level of performance achieved. Acquisition personnel who are currently managing award fee contracts are encouraged to review the award fee evaluation plan and its implementation to ensure that rating factors are formulated to incentivize the desired future contract outcomes, and to ensure that performance evaluations are conducted to accurately reflect contractor performance.
3. For additional information, please contact Ms. Joan Sylvester, DSN 367-6237, or email, sylvestj@forscom.army.mil.

Encl

A handwritten signature in cursive script, reading "Beverly Y. Thomas", is positioned above the typed name.

BEVERLY Y. THOMAS
Acting Chief, Contracting Division
Acting Principal Assistant Responsible
for Contracting



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

09 NOV 1999

SAAL-PP

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Award Fees and Contractor Performance Evaluations

The Under Secretary of Defense (Acquisition and Technology) USD(A&T) issued a memorandum (enclosed) stating his concerns that award fees earned by contractors are not always commensurate with overall performance.

I share the USD(A&T) concerns that some Army contractors receive higher award fees than are consistent with the level of performance achieved. Additionally, each award fee earned should be based on the period being evaluated and not "rolled over" from previous contracts.

An award fee is an incentive payment, based on the contractor's ability to achieve, or surpass, a set standard. Use of award fee is a valuable tool for motivating contractors to improve performance while at the same time providing government personnel an opportunity for close monitoring of the contractor's performance in technical, management, schedule and cost. The Federal Acquisition Regulation (FAR) Subpart 16.405-2 clearly states contractors earn the award fee during performance. The Defense Federal Acquisition Regulation Supplement (DFARS) 216.405-2 further states "normally, award fee is not earned when the fee determining official has determined that contractor performance has been sub-marginal or unsatisfactory." The government judgmentally determines and measures a contractor's performance within specifically designated performance categories, evaluation criteria and evaluation periods, as determined in the award fee plan.

If desired the Award Fee Determining Official (AFDO) in turn appoints members of the Award Fee Evaluation Board (AFEB). Army FAR Supplement (AFARS) 16.404-2(b)(2) affirms the AFEB should consist of contracting, technical and acquisition management personnel most knowledgeable with the contract requirements and contractor performance evaluation. Contractor performance evaluation is accomplished by the AFEB as an on-going process throughout the life of the contract. The contracting office along with the customer of the requirement will appoint an Award Fee Determining Official to evaluate the contractors

performance and to determine or recommend the amount of the award to the contracting officers should execute. The award fee should reflect the AFEB's surveillance and documentation of contractor performance throughout each rating period. The AFEB should include contract administration personnel and program managers as appropriate. Furthermore, selecting board members shall be coordinated with the Program Executive Officer (PEO) or other customer management officials.

I request each of you review award fee contracts under your cognizance to determine whether the rating factors in the award fee evaluation plan are consistent with desired future outcomes and whether the evaluations that have been conducted accurately reflect overall contract performance. If necessary, I suggest a change in the rating factors, evaluators, or evaluation period as appropriate. Also, I encourage you to continue monitoring your award fee contracts to ensure the award fees contractors receive more accurately reflect their actual performance, thereby motivating the poor performers to strive for increased efficiency.

Point of contact on my staff is Ms. Susan Erwin, SAAL-PP, telephone 703-681-9292 or DSN 761-9292.



Kenneth J. Oscar
Deputy Assistant Secretary of the Army
(Procurement)

Enclosure

DISTRIBUTION:

PRINCIPAL ASSISTANTS RESPONSIBLE FOR CONTRACTING
HQ, U.S. Army Materiel Command, ATTN: AMCRDA-AC (PARC),
5001 Eisenhower Avenue, Alexandria, VA 22333-0001

U.S. Army Aviation and Missile Command, ATTN: AMSAM-AC,
Building 4488, Redstone Arsenal, AL 35898-5000

U.S. Army Materiel Command Acquisition Center, ATTN: AMSSB-AC,
4118 Susquehanna Avenue, Aberdeen Proving Ground, MD 21005

U.S. Army Communications-Electronics Command, ATTN: AMSEL-AC,
Building 1208E, Fort Monmouth, NJ 07703-5000



ACQUISITION AND
TECHNOLOGY

THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-3010



27 FEB 1989

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
ATTENTION: SERVICE ACQUISITION EXECUTIVES

SUBJECT: Award Fees

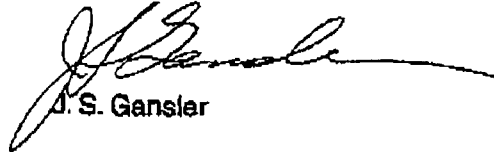
Award fee can be an effective motivator for excellence in contract performance in areas such as quality, timeliness, technical ingenuity, and cost-effective management. The amount of award fee earned is determined by the Government's judgmental evaluation of contractor performance against the criteria stated in the contract. Evaluations serve as periodic notifications to contractors of areas where improvement is expected. We know that contractor management monitors closely the levels of fee earned.

When programs are reviewed that have performance problems, schedule slips, and cost growth, that are being performed on award fee contracts, program managers often indicate that the contractors are nevertheless earning award fees in the 90 percents. Ratings of that level are not consistent with poor contract performance. Program Manager responses to why this occurs are that rating factors did not include appropriate elements (such as cost), or the rating periods were too long, making it difficult to focus the contractor's attention on emerging problems, or the Fee Determination Official was at a level too close to the government program office and put a premium on maintaining cordial relations with the contractor's program office.

Award fee periods, evaluation factors, and whether earned award fee percentages are commensurate with overall contractor performance, should be assessed during contract performance. To the extent the wrong factors are being evaluated or the judgment of the evaluators is not motivating performance excellence, consideration should be given to modifying the contract or changing evaluators.



Please sample your award fee contracts and determine whether the factors used in prospective award fee periods are suitable for the intended positive outcome. Also, when award fee programs are reviewed, it would be helpful if you would judge whether evaluations reflect overall contract performance. I would be interested in your views on other ways to improve award fee evaluations.



J. S. Gansler

CC:
Dr. George Schneider (OUSD(A&T)/S&TS)
Mr. John Landon, (C3I/PA&E)